

## IMIA Country Analysis Report 2007

Country	Premium Development	Claims Development	Underwriting Profitability	Business Outlook
CANADA	<p>The premium growth rate for P&amp;C companies as measured by Net Premiums Written – All Lines (excluding Accident &amp; Sickness and Government Insurance) in 2007 was 2.6% down from 3.7% in 2006 year over year. The actual premium progression was \$30.6 billion in 2003, \$33.2 billion in 2004, \$32.8 billion in 2005, \$34.5 billion in 2006 and \$35.4 billion in 2007. Net Earned Premium (NEP) was \$ 34.8 billion compared to an adjusted \$ 32.9 billion in 2006 and \$31.2 billion in 2005. NEP in 2004 was \$31.7 billion compared to \$28.5 billion in 2003.</p> <p>For Machinery Breakdown business, which includes Boiler Explosion and Loss of Profits, the Net Earned Premium in 2007 was \$262.8 million representing a decrease of 1% over 2006's \$265.4 million. Although the market was soft, affected by the significant premium reductions in the 10-15% range, which continued to be common in the larger commercial Property accounts, Machinery Breakdown rate reductions were generally in the 5-10% range. The continued reduced frequency of catastrophe losses in U.S. areas in 2007 was still discounted as aberrational, hence capital reassigned in 2005 to inland areas of Canada remained available and competition continued for high</p>	<p>Claims, on a Net Losses incurred basis for the P&amp;C business in general (basis as above) increased slightly, coming in at \$22.3 billion, compared to \$20.1 billion in 2006, but this, as last year, includes almost \$1.4 billion in positive run off (\$0.9 billion in 2006). Earned loss ratio was 63.15%, compared to 59.45% in 2006.</p> <p>Property losses (Commercial and Personal) increased considerably at \$6.5 billion from \$5.7 billion in 2006.</p> <p>Catastrophic natural disasters in 2007 as noted above were much increased from the previous year but there was no loss comparable to the fire at the Suncor oil sands plant in Fort McMurray, Alberta, which produced Property Damage and Business Interruption claims of \$1.095 billion in 2005.</p> <p>Machinery Breakdown losses continued on a slight downward trend. They were down 2.14% in 2007 with Net Claims incurred at \$72.9 million compared with an adjusted \$74.5 million in 2006. Overall, Loss Ratio to Net Earned Premium was 25.03% in 2007 and 25.13% in 2006.</p> <p>There were no large Machinery Breakdown claims (over \$1 million) recorded in 2007,</p>	<p>The Canadian P&amp;C industry wrote \$35.8 billion in direct written premium in 2007, down slightly (1.6%) from the \$36.4 billion in 2006. Underwriting expenses, including claims and acquisition costs amounted to \$22.3 billion, a reduction from \$25.3 billion the previous year. Underwriting income overall was down 22.5% over 2006, at a combined ratio of 93.7% compared to the prior year's 91.8%. Investment income was down almost 9% from \$5 billion in 2006 to \$4.6 billion in 2007. As noted earlier, Return on Equity declined from 17% in 2006 to 14.5% in 2007.</p> <p>With regard to Machinery Breakdown business, a 1% decrease in premium and a small increase in expenses as well as a very stable loss ratio (25%) another excellent net income result was achieved for 2007 estimated to be in the range of \$80 million with a 72% combined ratio and 28% profit margin. By comparison, 2006 estimates suggested a combined ratio of 69% and a profit margin of \$83.7 million net for all companies. As before, those insurers whose portfolio consisted almost exclusively of low-hazard Commercial business did even better with combined ratios in the 60% range making this continue to</p>	<p>The Canadian economy continues to grow, albeit at a slower pace than in 2007 and to operate at close to full capacity. For much of 2007 and the first quarter 2008 the Canadian dollar has been at close to par with the US dollar. The economy is expected to continue to grow at an even pace over the balance of the year, continuing to drive unemployment down below the structural rate. The current unemployment rate of 6.2%, is little changed from last year's 6.1%, which was a 34-year low.</p> <p>The insurance market cycle remains in a soft phase but concerns about potential weather-related losses remain. It is expected that rate reductions in the Property market will be generally in the 10% range throughout the rest of the year, which will have a spill over but more modest effect on Engineering lines of business.</p> <p>In the Machinery Breakdown sector overall, the downward pressure on rates continues, but generally not to the same extent as in the Property market. Renewal pricing remains subject to inconsistent competitive pressures. The market continues to be softer in the mid-market Commercial/industrial segment where many companies are still concentrating their efforts in order to achieve quick top-line growth. As this is a strategy adopted by most companies pricing in this area</p>

	<p>hazard risks in the petrochemical, oil &amp; gas, mining and pulp &amp; paper sectors in Canadian inland areas. In 2008 the market remains soft for commercial and small industrial accounts but there is evidence of some stability in high hazard account rating.</p> <p>Warranty business, which was previously included under the "Boiler &amp; Machinery" line of business in Canada is no longer reported in this fashion and has been dropped from this report.</p> <p>Although not premium, Engineering-related inspection activity is estimated to be \$24.5 million for 2007 continuing the inflationary trends seen in recent years; 2006 was \$23.9 million, 2005 was \$22.9 million.</p> <p>For 2008 the result is likely to be similar. Machinery Breakdown premiums equate to approximately 5% of the premium spent on Commercial Property insurance, or less than 1% of the total P&amp;C industry writings.</p>	<p>Overall, claims frequency appears to be continuing to decline on smaller claims, but the severity i.e. size of claims appears to be comparable with 2006.</p> <p>As indicated, EAR and CAR business is recorded as Property business in Canada and no separate loss statistics are available.</p>	<p>be an attractive business segment from a competitive standpoint.</p>	<p>remains unrealistic and unsustainable.</p> <p>In the Risk Management, high hazard portfolio, competition remains erratic, but deductible levels remain acceptable, and extensions/broadening of coverage are not readily given without premium charges. In general it is unlikely that significant rate reductions will be offered during 2008. Competition on the smaller transactional business is in line with the overall Property market, or slightly lower with rate reductions in the 5 -10% range.</p> <p>As a result, overall written premium appears to be down in the first quarter.</p> <p>Losses remain at historically low levels, but are trending higher than 2007.</p> <p>The situation in the EAR/CAR lines of business is generally unchanged, with a large number of companies pursuing the substantial number of CAR and EAR projects on the market. The building boom and the excess capacity in the Property market have led to competition driving down the rates although there remains a strong reluctance in the market to offer enhanced wordings (LEG 3 for example). The major reinsurers continue to resist major reductions on both rate and terms. There have been no significant EAR/CAR losses recorded to date.</p>
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